



## STAFF REPORT

**DATE:** **September 17, 2019**

**TO:** **Ronald L. Olson, City Manager**

**FROM:** **Jonathan Locke, Executive Director of Finance**

**SUBJECT:** **Bond Refunding Opportunity**

### **BACKGROUND AND FINDINGS:**

Staff works with the City's Financial Advisor, Dan Wegmiller of Specialized Public Finance, Inc., to identify bond refunding opportunities that will generate interest savings on outstanding debt. Market conditions are such that \$6,990,000 in outstanding bonds can be refunded, saving the City an estimated \$369,818, net present value, over the life of the bonds. The estimated savings are contingent on market conditions remaining favorable and will come from issuing new bonds with more favorable terms to pay off existing bonds creating a cost savings. There will be no change to the term of the bonds. The refunded bonds will be repaid on the same schedule as the original bonds.

Texas law provides two options for the issuance of refunding bonds. The City may either:

- 1) Adopt an ordinance with all the final pricing terms of the refunding bonds in the ordinance; or
- 2) Adopt an ordinance that delegates the ability to set the final pricing terms of the refunding bonds to any officer or employee of the City. The final pricing terms must fall within certain parameters set out in the approved delegation ordinance.

The City has utilized both options in the past. Option 1 is not recommended due to the short timeframe involved (City Council must approve within 1-2 days after bond pricing), and the lack of flexibility in entering the market in optimum conditions.

Option 2 provides the flexibility to choose the bond pricing date when market conditions are favorable. Staff and the City's Financial Advisor recommend option 2 to access the market when ready and not just around City Council dates.

Under option 2, City Council appoints a Pricing Officer(s) and delegates the ability to set the final pricing terms of the bonds to the Pricing Officer. The Pricing Officer must be an employee of the City or a council member. Historically, City Council has appointed the City Manager as the Pricing Officer and the Mayor as an alternate Pricing Officer in case the City Manager is unavailable when the bonds are priced. The City Manager includes any interim or acting City Manager responsible for the duties of the City Manager.

The Pricing Officer will set the final terms of the refunding bonds, as long as the terms fall within the parameters established by City Council in the delegation ordinance. With the approval of the delegation ordinance, City Council establishes the following parameters for the refunding bonds:

- 1) Maximum principal amount - up to \$7,500,000
- 2) Maximum maturity date - 08/15/2027
- 3) Minimum percentage of net present value savings that must be achieved - 3.5%
- 4) The outstanding bonds that will be included - all outstanding bonds that fall within the above parameters may be included. The estimated refunding of \$6,990,000 includes the Series 2012 Water & Sewer System Revenue Refunding Bonds.

The maximum principal amount is being set at \$7,500,000 instead of \$6,990,000 to allow room for bonds that currently fall outside the parameters outlined above. If market conditions improve such that the additional bonds fall within the above parameters, the City will be able to refund up to \$7,500,000 for even more savings of at least 3.5% net present value.

The Pricing Officer is prohibited from setting final terms outside the parameters established by City Council in the delegation ordinance. The delegation ordinance also sets the amount of time that the Pricing Officer has to price the refunding bonds before the delegation of authority expires. The Pricing Officer's authority to execute a Pricing Certificate expires at 5:00 p.m. Central Standard Time on September 24, 2020. Bonds priced on or before the expiration date may be delivered to the purchasers after such date.

The Pricing Officer will sign a certificate prepared by Bond Counsel that contains the final terms of the refunding bonds, which must be within the parameters established by City Council by the delegation ordinance. The Pricing Certificate and the delegation ordinance together are the City's official authorization of the refunding bonds. There is no further action required by City Council. Staff will report back to City Council the results of the bond refunding or provide updates on the status.

### **THE ALTERNATIVES CONSIDERED:**

#### **Which alternative is recommended? Why?**

There are two alternatives to consider:

- 1) Do not issue refunding bonds and forego the savings.
- 2) Issue the refunding bonds and save an estimated \$369,818, net present value, over the life of the refunded bonds. There is no extension to the term of the existing debt.

Staff recommends option 2, because of the significant savings achieved over the life of the refunded bonds.

### **CONFORMITY TO CITY POLICY:**

Texas Government Code, Chapter 1207 - Refunding Bonds, authorizes municipalities to refund bonds.

City Charter, Article VI - Issuance and Sale of Bonds, authorizes the City to issue bonds.

Financial Governance Policy, XIV. Debt (J) Debt Refunding, authorizes the refunding of debt with a net present value savings of 3.5%.

**FINANCIAL IMPACT:**

**What is the amount of the expenditure in the current fiscal year? For future years?**

The current estimate includes over \$7.1 million in bond proceeds being received from the issuance of the refunding bonds. The bond proceeds will cover the issuance costs, and the remaining proceeds will be transferred to an escrow account to retire the old bonds when callable. The delegation ordinance is for \$7,500,000, which includes additional bonds that are outside the parameters established in the delegation ordinance. If market conditions improve such that the additional bonds fall within the parameters, the City would be able to refund additional bonds for increased savings.

**Is this a one-time or recurring expenditure?**

This is a one-time expenditure.

**Is this expenditure budgeted?**

A budget amendment is required.

**If not, where will the money come from?**

Funding to retire the old bonds will be generated from the sale of the refunding bonds. A subsequent budget amendment will recognize the revenue from the issuance of the refunding bonds, which will be used to cover the issuance costs, and the remaining proceeds will be placed in escrow to pay the old bonds as they become callable.

**Is there a sufficient amount in the budgeted line-item for this expenditure?**

Upon approval of a subsequent budget amendment.

**RECOMMENDATION:**

Staff recommends City Council approve the ordinance designating the City Manager as the pricing officer and authorizing the issuance and sale of the Waterworks and Sewer System Revenue Refunding Bonds.

**DEPARTMENTAL CLEARANCES:**

Finance  
Legal

**ATTACHED SUPPORTING DOCUMENTS:**

Ordinance